

Conformity Bias in Financial Decision-Making among Indian Middle-Class Households: A Literature Review

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ABSTRACT: The middle class is a heterogeneous unit composed of entrepreneurs, salaried employees, and private sector workers who play a crucial role in liberalised economies. Their growth has been one of the most important turning points in the global scenario because of the wide contributions they make. In the Indian context, their importance is even greater because nearly a quarter of the population belongs to this group. This research explores an often overlooked dimension of the Indian middle class: the role of their behavioral biases in shaping financial decision-making. It examines how conformity bias, rooted in cultural aspirations and societal expectations, influences households to follow the bandwagon in savings and investment practices. The analysis further highlights how existing literature reinforces that limited financial literacy sustains this bias.

KEYWORDS: Behavioral and Social Sciences, Sociology and Social Psychology, Middle Class, India, Household Finance.

■ Introduction

The rise of the global middle class is rapidly transforming economies around the world. According to a 2009 report published in *The Economist*, the growth seen in emerging nations means that for the first time in history, over half of the world's population can now be defined as belonging to the middle class. The rising class population in Asia and around the world is unequivocally a welcome phenomenon because it sets an untapped opportunity for the world's industrialists, who can now produce more consumer goods for these communities to spend more on. In general, it refers to the expanding segment of the population that has achieved a certain level of income, stability, and comfort, and aspires to adopt patterns of consumption similar to those in Western societies.¹

In the Indian context, economic liberalization and globalization of the late 1990s have reshaped this class structure by aligning it more closely with the dynamics of global capitalism. Among all social groups, the Indian middle class has been the most rapidly integrated into this global framework, as its members are better positioned to adapt to new opportunities and practices. While different social classes in India experience globalization in varying degrees and forms, the middle class stands out because of its economic stability and cultural capital, which enable active participation in global markets of consumption, education, and employment. Keeping in mind this context, this literature review will study the idea of a global middle class within the Indian context as a vital step to examine the behavioral dimensions that shape how this class interacts with both global and local norms.²

The dimension that will be the focus of our literature review is conformity bias, '*the tendency to go along with group norms and follow them passively, thereby displaying a lack of agency*'. In the case of India's middle class, conformity bias plays a significant role in influencing consumption habits, lifestyle choices, and even educational aspirations, as people often seek to em-

ulate the practices of peers, global role models, or aspirational groups. Decisions such as saving for retirement, repaying debts, investing in education, maintaining health, purchasing a home, or raising children carry great importance because they strongly influence financial security and quality of life.³

■ Discussion

Conformity Bias in the Indian Middle Class:

Conformity bias, though widely acknowledged in psychological research, remains a concept that is often not fully understood outside academic discussions. It refers to the tendency of individuals to align their decisions, beliefs, or actions with those of a group, even when doing so may not reflect their own independent judgment. The existing literature in conformity considers social influence of an individual to be synonymous with conformity because these studies portray individuals as passive, showing that they have a disposition for making their own decisions. Some works critically suggest this issue by analyzing whether conformity bias is an experimental artifact or a real psychological tendency. These findings suggest that while certain experimental designs may exaggerate conformity, the bias itself cannot be dismissed as unreal. Rather, it appears to be deeply embedded in human psychology.² Most fundamentally, conformity bias was said to be occurring despite individuals knowing the right direction, indicating that conformity is driven by normative pressure where the desire to avoid social isolation is greater than the failure of perception or reasoning. Hence, this perception frames this bias as a socially motivated distortion of expressed judgment and not the inability to entail something as right or wrong.⁴ However, as a counterargument to this conclusion, some scholars believe that conformity varies across cultures and contexts, undermining the idea that humans are universally or passively conformist.⁵ Additionally, some studies have shown that conformity might be explained through two mechanisms: normative social influence

(conforming to be liked or avoid rejection) and informational social influence (conforming because others are perceived as more accurate). This framework clarifies that in many cases, individuals conform not because a group might be correct but because social acceptance, in their opinion, carries more value.⁶

But while conformity bias explains how social pressures shape individuals' expressed judgments, it does not fully account for why individuals repeatedly prioritise such social comfort over personal agency. This limitation becomes clearer when examined alongside present bias, which is defined as "a cognitive bias that stimulates the individual decision-maker to favour the present reward even over the higher reward in the future to avoid the uncertainty attached to the reward in an uncertain future"³ Present bias in individuals arises from weaker self-control and the desire for immediate gratification. Some people, in particular, are not aware of their flaws and tend to seek immediate gratification for things they enjoy, while procrastinating on duties and decisions that they find unpleasant. An individual who knows how they will behave in the future must show a pattern of seeking to avoid indulgences to improve self-control.⁷ To understand this, we must understand that the theory of self-control here means the importance of exercising self-regulation to reduce the effect of present bias on everyday behaviors. Such a theory operates on a time-inconsistent model, meaning that individual choices are inconsistent over time and that individual preferences do not remain the same in the future. Such a time-inconsistent model explains why behavioral issues such as a lack of self-control exist among individuals.⁸ However, empirical research on present bias and its relationship to financial behavior remains relatively scant.

The existing literature nonetheless indicates a consistent preference for immediate rewards over long-term benefits, a pattern that closely parallels conformity bias, where individuals sacrifice long-term accuracy in favour of short-term social acceptance. Now, in the context of the middle class, this conformity bias manifests in the widespread adherence to socially sanctioned financial practices, where households prioritise normatively defined "safe" choices over individually optimal ones in order to maintain respectability and avoid social risk. For example, families may choose to spend on socially visible goods such as weddings, festivals, or branded commodities because these expenditures align with what others in their community are doing.⁹ At the same time, they may delay investments in education, retirement planning, or health insurance, which are less immediately rewarding.¹⁰ The conformity bias ensures that the household remains consistent with peer expectations, while present bias makes it difficult to resist the short-term appeal of visible consumption. Together, these studies underline the multifaceted role of conformity bias in shaping the lives of Indian middle-class households. It is not a uniform or isolated phenomenon; rather, it interacts with economic aspirations, cultural norms, and societal expectations. The middle class often seeks upward mobility, but in doing so, its members rarely act in isolation. Their choices are embedded in a larger network of social signals, reputational concerns, and collective behaviors. The Indian middle class, caught between

tradition and modernity, exemplifies how conformity bias can serve both as a stabilizing force and as a barrier to progress.

Cultural and Social Drivers of Conformity Bias:

The Indian middle class occupies a central position in the country's economic and social landscape. Its members are not only consumers of goods and services but also participants in cultural reproduction and aspiration. Their decisions often reveal patterns that are less about individual rationality and more about conforming to collective norms. Conformity bias, in this sense, becomes a natural extension of the pressures faced by this group. To understand why the Indian middle class follows such a bias, it is necessary to look at the foundations of its identity, the increasing reach of financialization in household life, and the influence of social networks that frame how aspirations are expressed. Such studies emphasize that what makes the middle class distinct is not simply its income but its attempt to distance itself from poverty while aspiring toward the lifestyles of the rich.⁹ The middle class is characterized by investments in education, healthcare, and secure jobs, which serve as visible markers of progress. Yet these choices are often reinforced through comparison with others in the same social category. This creates a cycle where households are not only trying to improve their own living standards but also signaling their belonging to a respected social group. Such signaling naturally produces conformity, as individuals align their consumption, savings, and career goals with peers in order to maintain credibility as "middle class". Cultural and social aspirations make this process even stronger. For many households, milestones such as children's education, marriage ceremonies, and property ownership are not simply private decisions but public statements. They serve as confirmation of success to the larger community. Here, conformity bias ensures that families follow familiar scripts. For example, investing heavily in private schooling or in ceremonial spending becomes a way to uphold a collective identity, even if it strains finances. Rather than standing apart, households prefer to validate their social standing by replicating behaviors already associated with respectability. This shows how cultural aspirations work together with conformity, shaping the trajectory of middle-class life.¹¹ The growing financialization of households adds another layer to this dynamic—how households around the world have become sites where global financial systems are experienced in everyday life. In India, this means that decisions about loans, insurance, and investments are increasingly tied to expectations of the future. The household, far from being a neutral decision-making unit, is a cultural construct that organizes financial responsibility through kinship, morality, and intergenerational duty. The Indian middle class thus does not merely conform out of uncertainty or anxiety; it conforms because deviation from established financial norms risks reputational harm within kin and community networks. This reframes conformity bias not as a cognitive flaw, but as a cultural imperative that systematically narrows the range of financial strategies considered legitimate.⁹

Indian households routinely combine wages, kin support, informal borrowing, and institutional advice to manage

uncertainty, but the very act of seeking advice reinforces conservative strategies. Banks, financial planners, and social networks often recommend “safe” products like fixed deposits, insurance-linked savings, or government schemes that align with cultural ideals of stability and prudence. This institutional validation of conformity creates a feedback loop: households perceive risk-taking not only as financially dangerous but also socially irresponsible. Here, conformity bias becomes less about individual error and more about how households and culture mutually reproduce an aversion to deviation. This concept shows how peer effects and social interactions shape financial decision-making across domains such as housing, savings, and investment. It identifies channels such as social learning, where individuals rely on friends for information, and social utility, where people’s satisfaction depends on how their consumption compares with others. Both are strongly visible in the Indian middle class. For example, the purchase of consumer goods, cars, or apartments is often influenced by observing neighbors or colleagues. The fear of missing out further drives households to imitate others, ensuring that they do not fall behind in visible markers of success. These mechanisms explain why conformity bias is not accidental but deeply embedded in everyday financial and cultural life.¹² Together, these perspectives reveal that conformity bias within the Indian middle class cannot be dismissed as irrational. Rather, it is a response to the pressures of maintaining identity, securing social recognition, and navigating financial systems that are often difficult to understand alone.

Saving Patterns of Indian Middle-Class Households:

The saving and investment behavior of the Indian middle class is shaped by the pursuit of both security and social recognition. While incomes have gradually expanded over the years, households still face uncertainties linked to employment, education costs, and healthcare. This has made saving not merely a financial practice but a cultural one, tied to stability and family responsibility. Research shows that middle-class families prefer predictable and familiar saving instruments over risky alternatives. These choices reflect a desire to safeguard the household against future shocks while also sustaining visible markers of social progress.¹³ The tendency to invest in material or easily understandable assets also arises from cultural traditions and the weight of community practices, where one family’s financial decisions often influence others in the same social circle. Within this broad landscape, three methods stand out as the most common:

1. Fixed Deposits: Middle-class families often prefer fixed deposits because they provide certainty of returns and carry the trust of formal banking institutions. Unlike more volatile options such as equities, fixed deposits are viewed as safe, accessible, and suitable for families that cannot afford to lose capital. They also fit well with the traditional idea of wealth preservation rather than risk-taking. Studies show that households across income levels continue to allocate a significant share of their savings into bank deposits because the predictability of returns matches their cautious approach to financial planning.¹³

2. Gold: For generations, gold has carried symbolic and practical value in Indian society. Beyond being a precious metal, it functions as a form of social security, particularly in times of crisis. Families see gold as an asset that is easy to liquidate and resistant to inflation. Moreover, its role in rituals, marriages, and festivals ensures that investing in gold is not just a financial act but also a cultural obligation. Middle-class households, even with limited resources, continue to purchase small quantities of gold regularly, combining the cultural importance of ownership with the financial advantage of long-term security.¹⁴

3. Real Estate and Consumer Goods: The aspiration to own a house remains one of the strongest markers of middle-class identity in India. Real estate offers both stability and prestige, symbolizing upward mobility and permanence. However, the high cost of property means that families usually rely on long-term loans. At the same time, EMIs are also widely used by this group to purchase material goods such as cars, household appliances, and smartphones. This reflects the hyperactive consumer culture of the middle class, where ownership of modern goods is closely tied to aspirations and social comparison. While EMI dependence can increase vulnerability in times of economic uncertainty, research shows that families willingly accept this risk because both home ownership and the acquisition of consumer goods provide security, satisfaction, and social legitimacy.¹⁵

In summary, the saving and investment patterns of Indian middle-class households are not random but rooted in a careful balance of financial caution and cultural aspiration. Fixed deposits, gold, and real estate or consumer goods purchased on installments dominate because they align with the desire for security, the continuation of tradition, and the pursuit of respectability. These preferences underline how economic behavior in India’s middle class is closely tied to broader social values and expectations, making conformity to these practices both rational and socially rewarding.

Limitations of a Standardised Savings System:

In the context of Indian middle-class households, conformity bias is often discussed in relation to shared savings and investment practices that are widely perceived as safe, respectable, and socially approved. Existing studies on household financial behavior suggest that decisions related to savings are rarely made in isolation, but are instead shaped by family advice, community norms, and commonly observed practices within social networks.¹⁵ As a result, households frequently gravitate toward familiar financial instruments such as fixed deposits, gold, real estate, and life insurance, which are socially validated and widely recommended across generations.¹³ It is important, however, not to interpret this adherence to standardized savings practices as evidence of irrationality or lack of awareness. Several studies note that such financial choices are often motivated by risk aversion, income uncertainty, and limited access to formal financial advice, rather than blind conformity.¹⁴ In this sense, conformity bias operates alongside structural and informational constraints, reinforcing patterns that are already perceived as secure and dependable.

Research further indicates that socially visible financial decisions, such as expenditure on weddings, festivals, and housing, carry symbolic value within middle-class communities and serve as markers of stability and social belonging. These expenditures are frequently prioritized because deviation from established norms may carry reputational or relational costs. At the same time, less visible forms of long-term financial planning, including retirement savings or insurance coverage, tend to receive comparatively lower emphasis, particularly when immediate social expectations are present.¹ The persistence of these savings patterns should therefore be understood as the outcome of interacting social and behavioral factors rather than as the dominance of a single bias. Conformity bias contributes by encouraging alignment with accepted financial norms, while present bias reinforces a preference for immediate and socially rewarding outcomes over delayed benefits.³ Existing literature suggests that this interaction helps explain why standardized savings practices remain prevalent even when households are aware of alternative financial options.¹³ Taken together, these studies highlight that conformity bias within Indian middle-class households does not impose a rigid or uniform system of savings. Instead, it operates as one influence among many, shaping financial behavior within a broader context of social expectations, economic uncertainty, and cultural norms. This perspective allows for variation across households while accounting for the observable regularities documented in existing research.

■ Conclusion

This study shows that conformity bias significantly shapes financial behavior in Indian middle-class households. Economic decisions are influenced not only by rational planning but also by social expectations, with preferences for fixed deposits, gold, real estate, and consumer goods on installments reflecting a desire for security and social recognition. These patterns highlight how aspirations for stability and respectability reinforce conformity, even when alternative financial options might offer higher returns. Standardized savings systems often fail to reflect these cultural and behavioral realities, limiting their relevance for many households. By examining the intersection of culture, behavior, and economics, this research provides a nuanced understanding of how middle-class families navigate financial decisions. Future studies could explore how digital finance tools, such as mobile banking and savings apps, affect these behaviors, whether by reinforcing peer-driven patterns or by supporting more independent financial choices. Overall, recognizing the role of conformity bias allows for more accurate and culturally sensitive models of household financial behavior.

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